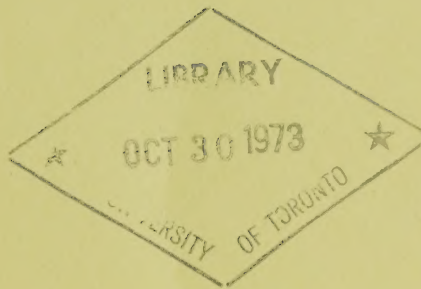


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NOTES ON SOME DEFINITIONS OF THE MULTINATIONAL ENTERPRISE



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NOTES ON SOME DEFINITIONS OF THE MULTINATIONAL ENTERPRISECONTENTS

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I. INTRODUCTION

The purpose of this paper is to examine the concept of the multinational enterprise in the light of the writings of eight authors. Their different approaches to the concept are examined and compared.

The multinational enterprise is a special example of the international enterprise. Before proceeding further it will be useful to provide a few basic definitions.

An enterprise is an organization which carries out business operations under a common system of control. It may be unitary in nature, consisting of one person operating his own business, or of one corporation. It may consist of a number of individual units, each of which has a separate legal identity. In such a case, the links between the individual units are economic and contractual in their nature. The control is exercised through ownership or some other contractual link.

Each component unit of an enterprise is a resident of a territory of a sovereign state. It has a separate legal identity as the result of an act of a sovereign state, or of a jurisdiction within its borders. In most cases, the sovereign state of residence is the same as the one in which legal identity has been obtained.

When an enterprise is comprised of units that are residents of more than one sovereign state, it is an international enterprise.

Now, foreign direct investment involves control of a business in one country by a business (which may be a natural person) in another. These businesses which are residents of two different countries are linked by ties of ownership. Thus, by definition, foreign direct investment is carried out by international enterprises.

The rapid and widespread increase in direct investment during the last few decades has caused an increasing interest in the nature of the international enterprise, and an increasing volume of literature on the subject. Within this literature, there has developed a body of writing about the multinational enterprise which has distinctive characteristics of its own.

The word multinational implies many nations. A multinational enterprise would therefore, strictly speaking, be one which was composed of units which were residents of many sovereign states. In practice, it

will be found that the nature of the relations between an enterprise and governments may change significantly when the enterprise has units which are residents of three states instead of two. At this point, the simple relationship between parent country and host country no longer exists.

This working paper deals with a selected portion of the literature which discusses the multinational enterprise. It reviews the conceptual approaches of the Task Force on the Structure of Canadian Industry, which reported in 1968, and of seven economists: - J. N. Behrman, S. Hymer, C. P. Kindleberger, H. V. Perlmutter, J. Polk, S. Rolfe and R. Vernon. The books and articles reviewed while searching for their definitions are listed in the bibliography attached as Annex A.

The authors covered are particularly concerned with multinational enterprises. Whatever the terminology they use, one important characteristic is that the references are to firms which operate in a number of countries, not just in two.

In general, it would appear that the term multinational is associated in the literature with larger enterprises, whether this is explicitly stated or not. The small enterprises which operate in several countries would probably be left out of consideration by most of the authors concerned.

II. THE GENERAL APPROACH

The development of an operational and analytical definition of the multinational enterprise has proven to be elusive, although the phenomenon is widely referred to in the literature.

This paper aims at a systematic review of the definitions which are found in a significant portion of the literature on the subject.

As the first step, a bibliography was prepared on the works of seven authors. This is attached as Annex A. The work of each author was then searched for definitions and concepts. In addition, the Report of the Canadian Task Force on the Structure of Canadian Industry was searched. The results are given in a **separate** chapter for each author and for the Task Force.

The general conclusions drawn from the study are given in Chapter XI.

Several of the authors reviewed use the term corporation when they refer to the multinational enterprise. The use of the term corporation to describe a group of corporations or affiliated business firms appears to be a misnomer. As one of the authors discussed in this paper points out:

"In the legal sense, there is no such thing as a "multi-national corporation" which is incorporated under some non-national law. The legal bases for the enterprise are spread out among all countries where there are operating facilities; each entity is incorporated under national laws. There is no international law of incorporation for private entities." 1/

Where the authors reviewed are quoted as using the term corporation, the reader should keep in mind that they are referring to what are regarded in the direct text of this paper as enterprises.

Notes:

- 1/ J.N. Behrman, Some Patterns in the Rise of the Multinational Enterprise, Graduate School of Business, University of North Carolina, Chapel Hill, March 1969, page 120.

III. THE TASK FORCE ON THE STRUCTURE OF CANADIAN INDUSTRY

The Task Force, which submitted its report in 1968, looked upon the multinational corporation as the primary vehicle of foreign direct investment. The international movement of capital for direct investment is therefore complemented by an extension of control by the foreign investor through management and information. The Task Force placed stress on the fact that the integration of operations among affiliates involved a concentration of control.

"When it makes a direct investment abroad, the corporation becomes multinational. In varying degrees it harmonizes, integrates and co-ordinates the activities of its divisions in different countries. In most cases the head office must be consulted on major policy changes, particularly on financing and it exercises an overall co-ordinating control." 1/

The aspect of control takes on importance due to the fact that "Foreign control means the potential shift outside the country of the locus of some type of decision-making." 2/ The integration of the various national operations internalizes exchange and reduces the effectiveness of the market mechanism in allocating resources.

The second dimension of the corporation which is emphasized is that of nationality.

"The direct investment corporation may be essentially a national corporation operating extra-nationally, insisting on the primacy of the methods it uses at home, and even of the laws of the home country. Or it may be a multinational corporation in a genuine sense, sensitive to local traditions, and respecting local jurisdictions and policies. Or it may be global, with such pervasive operations that it is beyond the effective reach of the national policies of any country and, in the absence of supranational policy, free to some extent to make decisions in the interest of corporate efficiency alone. These three possibilities - along a spectrum - imply different corporate behaviour, with differing consequences for the economy and policy of a host country. It cannot be doubted that how the corporation interprets its nationality is relevant to the host country." 3/

The multinational corporation can be either polycentric or globally oriented. Both orientations are consistent with the definition given in the appendix of the report.

"A multinational corporation is a corporation which engages in foreign direct investment. It is the parent corporation which controls one or more incorporated subsidiaries and/or one or more unincorporated branches abroad." 4/

Notes:

1/ The Task Force, Foreign Ownership and the Structure of Canadian Industry, Privy Council 1968, pages 26-7.

2/ Ibid, page 27.

3/ Ibid, page 33.

4/ Ibid, page 423.

IV. J. N. BEHRMAN

Behrman has settled on the term multinational enterprise, although he has employed a number of terms in his writings. In an article published in March 1969, Behrman referred to "multinational corporations".^{1/} In another paper presented to the Economic Council of Canada in 1970, Behrman noted the problem involved in defining what he then called the "international corporation".

"There is no accepted definition of an "international" corporation", and the concept is likely to remain confused because of the different meanings of the term "international". It is not clarified by the substitution of the word "multinational". Thus one company claims to be "multinational" because it operates among many countries as a single unit, with the objective of harmonizing varied interests of its affiliates and host governments while not being subservient to any one set of interests. Another says precisely the opposite -- that it is "multinational" because it attempts to serve the specific interests of each host government or economy and to treat its various affiliates as separate entities.....

Even so, there is such a thing as an international company -- if characterized simply as a large (domestic) corporation which has a substantial overseas investment in operating subsidiaries or affiliates -- sometimes including licensees. A sizable export volume out of total sales would not indicate that a company was "international". Nor does size make a company "international". Rather, it is here defined by the ways in which it pursues its overseas activities.^{2/}

Behrman realized that it is erroneous to describe a business organization composed of diverse corporate bodies as a corporation.

"In the legal sense, there is no such thing as a "multinational corporation" which is incorporated under some non-national law. The legal bases for the enterprise are spread out among all countries where there are operating facilities; each entity is incorporated under national laws. There is no international law of incorporation for private entities."^{3/}

Clearly the term enterprise is more applicable and as Behrman notes there has been an increasing use of the term multinational enterprise in the literature. International enterprises may take the form of an international holding company, a minority participant in domestic companies, a joint venture with a partner from the host country, or an integrated international enterprise. The distinctions among them are based on the areas of control and integration of operations of affiliates. Behrman focuses on the multinational enterprise in his book "Some Patterns in the Rise of the Multinational Enterprise".

"In what sense is there or can there be a "truly international" aspect of the multinational enterprise? It appears that the concept of the multinational enterprise shifts according to the particular viewpoint of the user of the adjective. There are at least seven different senses in which the word "multinational" may be applicable: business organization, behaviour or orientation, legal, ownership, control, economic, or political.

Many of the enterprises interviewed claimed to be "multinational", or asserted that others were, as a consequence of their business organization and scope of activities. They were organized to export widely over the world, had operating facilities abroad, and attempted to serve the markets of "many nations". But there are significant differences in the organizational structure and the pattern of production and marketing among "multinational" enterprises. It would be difficult to assign "multinational" to one and not the others. And, some companies having similar forms and scope of operations are operated quite differently - at one extreme is the international holding company and at the other is the highly centralized entity.

Behaviour or orientation or "mentality" was chosen by many company officials as key to whether a company was "multinational". And the Canadian Task Force defined a "multinational corporation" as a company which is "in a genuine sense, sensitive to local traditions, and respecting local jurisdictions and policies". In their view, this corporation is distinct from a "national corporation", which extends its home methods and biases directly abroad, or a "global corporation" which has "such pervasive operations that it is beyond the reach of the national policies of any country and, in the absence of supra-national policy, free to some extent to make decisions in the interest of corporate efficiency alone". They provided no examples of a "global corporation".

It is in the "mentality" sense that many enterprises claimed to be "multinational". But the confusion in the concept is illustrated by the fact that officials of one large enterprise expressed it in diametrically opposed ways. One group, interviewed in the morning, asserted that their enterprise was "multinational" because it was in many nations and had to take the conflicting interests of each into account, developing policies which met the desires and objectives of "many nations". A second group of officials in the same enterprise, interviewed in the afternoon, asserted that the company was "multinational" because it was in so many nations that it could not possibly accede to the wishes of all and had to develop an independent (supra-national?) policy on a political basis.

While it is not clear whether the enterprise can in certain situations behave in a supranational fashion or must accede to the wishes of governments, it is clear that it cannot do either all the time or to an extreme. And it is clear that the trend in the large enterprises serving many nations is to become more integrated and centralized. It is in the sense of commercial and economic behaviour - integrated and centralized - that we have used the term "multinational" in this monograph." 4/

An enterprise may be considered multinational if it operates in many national markets.

"Domestic (national) companies remain oriented to the national market, exporting internationally. They are under the actual and potential control of a single government. The multinational enterprise is not acting like an agglomeration of domestic companies, loosely held by equity shares, but like a closely-controlled single enterprise, located in markets separated by national boundaries and operating under several national governments. Its essential feature is "unity in diversity". 5/

"The multinational corporation constitutes an extension of economic activity across national boundaries, through corporate ties under laws of the various countries in which affiliates are established. It is multinational only in a commercial sense - selling to markets in many nations from many production facilities." 6/

The multinational enterprise may be contrasted with domestic enterprises.

"This new entity, the multinational enterprise, is quite distinct from a domestic corporation. Although it has some of the same business and commercial features, it has capabilities and alternatives not possessed by a purely nationally based and nationally oriented company. Not even a domestic company that exports substantially has the same mobility or flexibility. The multinational enterprise has the capacity to shift operations around the world so as to reduce costs and improve efficiency and greater ability to expand its market penetration. The fact that the multinational enterprise is growing rapidly increases its flexibility and mobility and therefore its bargaining power with governments since it permits reconstitution of negotiations or decisions." 7/

Behrman imposes the additional criterion that an enterprise which operates in many national markets must also be integrated under central control to be considered a multinational enterprise.

"The decisions that are being centralized in the parent company include the location of production facilities so as to eliminate duplication; the product mix for each affiliate or region; the extent of intercompany sales of semifinished and finished products; the pricing of products not only in inter-company sales but also in retail and export; the sources of raw materials, components, and packaging; common purchasing of bulk materials; and the coordination of marketing techniques and territories. In addition, both research and development programs and financial management are being highly centralized; the parent company is largely responsible for these activities, and both operations and policy controls are usually located at the site or directly under the management of the parent. Finally, the expansion of corporate long-range planning adds to the centralized control of the parent." 8/

The degree of integration may be manifested in numerous stages of operations of the enterprise from purchasing to marketing.

"The objective of the multinational enterprise is to meld its foreign affiliates into an operational entity, integrated with the activities of the parent, to serve the world market. It is the projection, onto the world market, of the concept and operation of the U. S. giant corporation, as it operates in the continental common market of the U. S. As the enterprise is emerging, it has basically, three characteristics: central

control by the parent, a common strategy for the entire enterprise, and integrated operations between affiliates and with the parent." 9/

Behrman indicates that multinational enterprises are generally located in the North Atlantic region where the reduction in trade barriers has enabled the integration of operations to take place. The multinational enterprise is also characterized by a concentration in industries of advanced technology. Behrman considers the integration of operations and centralization of control the most important feature of multinational enterprises.

Notes:

- 1/ J.N. Behrman, Multinational Corporations, Transnational Interests and National Sovereignty, Columbia Journal of World Business 4, 15-21 March April 1969.
- 2/ J.N. Behrman, An Essay on Some Critical Aspects of the International Corporation, The Economic Council of Canada, January 1970, pages 1-2.
- 3/ J.N. Behrman, Some Patterns in the Rise of the Multinational Enterprise, Graduate School of Business, University of North Carolina, Chapel Hill, March 1969, page 120.
- 4/ Ibid, pages 119-120.
- 5/ Ibid, page 62.
- 6/ J.N. Behrman, The Multinational Enterprise and National Power, Paper presented to the Annual Canadian-American Seminar, University of Windsor, November 21, 1968.
- 7/ J.N. Behrman, National Interests and the Multinational Enterprise, Englewood Cliffs, N. J., Prentice-Hall Inc., 1970, page 2.
- 8/ Ibid, page 2.
- 9/ J.N. Behrman, Can Governments Slay the Dragons of Multinational Enterprise, European Business No. 28, Winter 1971, page 54.

V. S. HYMER

Hymer does not give an explicit definition of what he calls the "multinational corporation" but does refer to a definition given by the editor of Interplay.^{1/} The editor refers to the multinational enterprise as "An organization which, while remaining in private hands, transcends national boundaries and national regulations." ^{2/}

Hymer looks upon the emergence of the American multinational corporation as the most recent development in U. S. business organization.

"In order to meet the challenge of their peculiar market, U. S. corporations had to develop an administrative structure capable of managing units spread out over an entire continent in an environment of rapidly and continuously changing markets. Their answer - the national corporation (circa 1900), the multidivisional corporation (circa 1920), and now the multinational corporation - involved enlargement of the corporate "brain", and the development of business administration as a specialized profession with its own elaborate division of labor and its own system of education." ^{3/}

The multinational corporation has evolved from the international operations of national firms. "International operations refers to the ownership and control of enterprises in one country by firms in another." ^{4/}

Hymer emphasises the fact that if there is central control of the enterprise, then the policies of the parent nation will enter into the relations of the organization inhibiting the enterprise from pursuing a truly international mode of operation. At the same time, the multinational corporation is not tied to a dependence upon any one foreign national market.

"Multinational corporations see the world as their oyster and judge their performance on a world-wide basis. They look to their global market position." ^{5/}

The flexibility imparted to the enterprise by operating in many nations coupled with a generally oligopolistic market structure gives the multinational enterprise discretionary power. To this extent the power of national governments to control business activities within their borders is reduced.

Notes:

- ^{1/} Quoted in S. Hymer and R. Rowthorn, The Multinational Corporation and International Oligopoly: The Non-American Challenge in C. P. Kindleberger (ed.), The International Corporation, Cambridge, Mass. M.I.T. Press 1970, page 58.

- 2/ The Editor, The Multinational Corporation: The Splendors and Miseries of Bigness, Interplay, November 1968, from introduction on page 15.
- 3/ S. Hymer and R. Rowthorn, Multinational Corporations and International Oligopoly; The Non-American Challenge in C. P. Kindleberger (ed.), The International Corporation, Cambridge, Mass., M.I.T. Press 1970.
- 4/ S. Hymer, The International Operations of National Firms, M.I.T. Doctoral Dissertation 1960.
- 5/ S. Hymer and R. Rowthorn, Multinational Corporations and International Oligopoly in C. P. Kindleberger, The International Corporation, Cambridge, Mass., The M.I.T. Press, 1970, page 58.

VI. C. P. KINDLEBERGER

Kindleberger retains the term "corporation" instead of enterprise. He identifies three types of international enterprise. These are the national firm with foreign operations, the multinational firm, and the international firm. They can be distinguished on the basis of their attitudes toward foreign exchange risks and toward the equalization of profits. "The attitudes may be sub-conscious rather than articulated."^{1/} These different attitudes imply different types of behaviour.

The first criterion which distinguishes among the three types is the firm's attitude toward foreign exchange risk.

"The national corporation is usually hedged in foreign exchange, is seldom long of foreign currencies, and is ready to go short when a foreign currency is under attack. It will not take a short position in the currency of the parent company and does not, in fact, recognize that it has an exchange position when it holds net assets denominated in money in that currency. A multinational firm would regard it as a breach of good citizenship to go short of a foreign currency. The international firm, on the other hand, is conscious of the exchange risks it takes in any currency, including that of the parent country."^{2/}

The second criterion reflects differing attitudes toward the treatment of profits.

"The truly international corporation, if one exists, seeks to maximize profit by equalizing returns in every operation, appropriately discounted for risk. In contrast, the national corporation earns more abroad than at home, but hangs back because of risk and uneasiness away from its familiar environment, and the multinational firm reinvests profits in each situation regardless of yield. The international corporation is prepared to go short of its home currency, should that be weak, unless such a step were illegal or certain to incur expensive ill-will. It must concern itself with political realities in every jurisdiction. If countries levy requirements on it, it complies, unless they be too onerous (in which case it gets out). It recruits executives from everywhere, on the basis of ability, rather than rule of thumb. In short, it belongs everywhere, and nowhere, and is truly international."^{3/}

The national firm with international operations is described thus:

"The national firm with foreign operations knows where it belongs. First and foremost it is a citizen of a particular country. Foreign operations are small in the total scheme of things. There may be an international division, rather than foreign operations in every division. The company is not speculating when it holds the currency of the nation claiming sovereignty over the parent corporation. Assuming it is an American corporation, its securities are issued in dollars, and its accounts kept in that currency. It may have substantial foreign ownership interests, but it feels at home only in one country, and substantially alien everywhere else."^{4/}

The multinational corporation tends to operate like a group of interlocked domestic firms rather than to take advantage of its international position.

"The multi-national corporation is a step beyond the national corporations with foreign operations. It seeks to be a good citizen of every country in which it operates (proportionately, it is presumed to the share of total sales, assets, net income, or employment). Whereas the national firm with foreign operations would never go short of its home currency, but would speculate in foreign funds, the multinational corporation would regard it as unpatriotic to go short of any currency in which it has a subsidiary. It maintains each investment and reinvests profits in each country without transferring depreciation allowances from less profitable to more profitable operations, as a profit-maximizing calculus which disregarded political considerations of good will would require. No operation is closed down; that would be hard on the local community. It hires locals despite possible costs in efficiency, and its expatriates try to become absorbed in the local community. A good citizen of every community in which it operates, it hopes that the requirements of efficiency and citizenship will converge, but when they do not, it compromises." 5/

Finally, the international corporation is the organization which strives to gain the maximum benefit from operating internationally.

"The international corporation has no country to which it owes more loyalty than any other, nor any country where it feels completely at home. It equalizes the return on its invested capital in every country, after adjustment for risk which is free of the myopia that says home investment is automatically risk free and all foreign investments are risky. It is willing to speculate against the currency of the head office because it regards holdings of cash anywhere as subject to exchange risks which should be hedged." 6/

The international corporation is an entity whose decision-making transcends national boundaries. Kindleberger recognizes that a salient feature of its operations is the flexibility derived from operating in several national markets.

"The corporation strives to rationalize operations so that production occurs where costs are lowest and sales are made where prices are highest. Given good coordination, industrial activities can be managed to take advantage of cost differences in labor, capital, tax rates and market conditions." 7/

Kindleberger considers the rise of international corporations poses political problems for host nations. National governments have not adjusted to the increasing influence of international enterprises. Given the limits of national jurisdictions and lack of international regulation, one may expect international enterprises to retain substantial decision-making power independent of government direction. He concludes that:

"Such a situation may leave individual nation-states relatively helpless in the face of a powerful, closely interlocked, and geographically mobile network of industrial enterprise. As the management of local economies becomes impaired, governments will become less effective in stabilizing employment, redistributing income and providing social overhead capital. A reasonable analogy is that nations, in the face of increasing effectiveness of international corporations, will be as ineffective in governing themselves as today's cities." 8/

Notes:

- 1/ C.P. Kindleberger, American Business Abroad; Six Lectures on Direct Investment, New Haven and London, Yale University Press, 1969, page 182.
- 2/ Ibid, page 182
- 3/ C.P. Kindleberger, Power and Money, Toronto, General Publishing Co., 1970, pages 194-5.
- 4/ C.P. Kindleberger, American Business Abroad; Six Lectures on Direct Investment, New Haven and London, Yale University Press, 1969, page 180.
- 5/ C.P. Kindleberger, Power and Money, Toronto, General Publishing Co., 1970, page 194.
- 6/ C.P. Kindleberger, American Business Abroad; Six Lectures on Direct Investment, New Haven and London, Yale University Press, 1969, page 182.
- 7/ C.P. Kindleberger and P. Goldberg, Toward a GATT for Investment, Law and Policy in International Business 2, Summer 1970, pages 2 and 6.
- 8/ Ibid, page 296.

VII. H. V. PERLMUTTER

Perlmutter, in isolating the salient features which distinguish the multinational enterprise from other forms of business organization, focuses on what he calls the "industrial social architecture". The term social architecture refers to "the building of viable and indispensable institutions which embody positive human values".^{1/} In Perlmutter's opinion, the criteria of percentage of assets abroad, ownership and other measures are insufficient indices of multinationality. His attention is therefore directed toward the behaviour of the decision-makers of the multinational enterprise in their efforts to organise viable structures within host countries.

Perlmutter outlines three dominant orientations of multinational enterprises: ethnocentric or home-oriented, polycentric or host-country oriented and geocentric or world-oriented. An ethnocentric organization exhibits a concentration of control in the parent country. The executives identify with the parent firm and tend to apply the standards of the home country throughout the enterprise.

If the management of the enterprise is polycentrically oriented, then there will be a dispersion of control among subsidiaries and an identification of personnel with the host country. The attitudes are pluralistic enabling the branches of the organization in different locations to pursue individual policies which may be more amenable to the goals of the host country.

When managers do not identify with a particular nation, but base their decisions on optimizing over a world market, the enterprise is geocentric in outlook. The management of the organization is recruited from diverse nationalities to yield a cosmopolitan "elite" which is flexible enough to impose central control over the heterogeneous operations. The continuous flow of personnel and information throughout the organization aids in decision-making on a global basis.

Perlmutter feels that the "legalistic definition of a multinational enterprise as a cluster of corporations of diverse nationality joined together by ties of common ownership"^{2/} does not adequately indicate the

degree of multinationality of an enterprise. The transition of the multinational enterprise toward geocentrism is thereby obscured.

The performance of the multinational enterprise is influenced by the different postures adopted by host countries. The attitudes of the host country toward the enterprise may be xenophilic, ethnocentric or geocentric. For example, the host country may be xenophilic and accept the ethnocentrism of a multinational enterprise without insisting upon conformity with national goals. If the host country is ethnocentric then the multinational enterprise may take on a polycentric orientation to keep in line with the expectations of the host country. The insistence of the host country upon local norms and identification with national goals may impede the multinational enterprises' evolution toward geocentrism.

Geocentric attitudes for both the enterprise and the host country may be the most promising for the development of the multinational enterprise. In this situation, both recognize the logic inherent in optimizing resource development throughout the world market. Rather than insisting upon national affinities, international values such as mobility of personnel, the free flow of information and productive efficiency may be fostered. For Perlmutter, it is the large multinational enterprise with a geocentric orientation which holds the greatest promise for the future.

Notes:

- 1/ H.V. Perlmutter, Problèmes d'Architecture Sociale des Entreprises Multinationales, Revue Economique et Sociale, Lausanne, April 1967, page 168.
- 2/ H.V. Perlmutter, The Tortuous Evolution of the Multinational Corporation, Columbia Journal of World Business, January-February 1969, page 13.

VIII. J. POLK

Polk considers the emergence of the "international corporation" a manifestation of the internationalization of production. Polk notes that the growth of the large domestic corporation in the U. S. led to the integration of its regional markets. The international corporation represents the analogue for the world market.^{1/} The international flow of products has been supplanted to a considerable extent by the transnational movement of factors.

Polk estimated that in 1969 United States investment abroad was 133 billion dollars. He concluded that:

"It is apparent that goods that come into being as a result of the technology and initiative of Americans now reach foreign markets primarily through producing facilities located abroad. It also seems apparent that this process represents a major large-scale international allocation of resources." ^{2/}

Polk has termed this development of joint production by factors from different nations, "international production".

"U. S. production abroad is really production in which U. S. management and financing work together with foreign factors of production. The result is a product which must be tagged as simply inter-national production." ^{3/}

Polk's implicit concept of "international corporations" is that of an organization which through direct investment integrates world production for a world market.

Notes:

- ^{1/} J. Polk, U. S. in a World Economy, U. S. Council of the International Chamber of Commerce, July 27, 1970, page 2.
- ^{2/} J. Polk, The U. S. as World Producer, Business Economics 3, Fall 1967, page 2.
- ^{3/} J. Polk, The New World Economy, Columbia Journal of World Business Volume III, No. 1, January-February 1969, page 9.

IX. S. E. ROLFE

A short discussion of the concept of the "international corporation" is presented by Rolfe in his book, "The International Corporation".

He opens the discussion by stating that:

"The international corporation is variously defined, but in essence, it consists of several operating subsidiaries in different countries, under the control of a central company which owns the subsidiaries in whole or part, and which in turn is usually owned by the public through wide-spread shareholding." 1/

Rolfe refers to several other definitions which vary according to the "degree of internationalization of power" the particular authors wish to suggest. One set of definitions is offered by Richard Robinson. The international firm, the multinational firm, the transnational firm and the supranational firm represent increasing degrees of internationalization such that the latter does not retain the least vestage of national affinity.

"An international firm is one in which international operations are consolidated in a line office on the division level and, as a matter of policy, is willing to consider all potential strategies for entering foreign markets - up to direct investment.

A multinational firm is one in which, structurally and policy-wise, foreign operations are co-equal with domestic, (and) management is willing to allocate company resources without regard to national frontiers to achieve corporate objectives. Decisions remain nationally-biased for ownership and headquarters management remains uninational.

A transnational firm is a multinational firm managed and owned by persons of different national origins. Decisions thus become free of national bias.

A supranational firm is a transnational firm legally denationalized by permitting it exclusively to register with, be controlled by, and pay taxes to, some international body established by multinational convention." 2/

These definitions contrast with those of Kindleberger. Kindleberger employs the term international corporation for an enterprise which has a global orientation and integration of its facilities. In his terminology an enterprise which focuses on each national market is a multinational corporation. Rolfe also mentions Perlmutter's distinctions which focus on the psychological orientation of the management of the multinational enterprise.

Rolfe states that "there are no standard accepted definitions"^{3/} for the international corporation. However, two criteria employed to

identify international corporations are the number of countries in which production is carried on and the proportion of a company's assets, labour force or sales in foreign markets. Rolfe finds the latter criterion useful in identifying the large U. S. international corporations. When he speaks of the international corporation, Rolfe has in mind an enterprise which "seeks to produce, finance and market wherever resources can be most efficiently utilized, without respect to national boundaries."^{4/}

Notes:

- 1/ S.E. Rolfe, The International Corporation, The International Chamber of Commerce, 1969, page 11.
- 2/ As quoted by Rolfe, Ibid, page 12.
- 3/ S.E. Rolfe and W. Damm, The Multinational Corporation in the World Economy, New York, Preager Publishers, 1970, page 16.
- 4/ S.E. Rolfe, The International Corporation, page 16.

X. R. VERNON

To Vernon the multinational enterprise is an organization "consisting of groups of corporations, joined by a common parent, but including diverse nationalities".^{1/} In another article, Vernon gives a more explicit definition of the multinational enterprise.

"The term "multinational enterprise" is sometimes confusing and always imprecise; but what I have in mind here is simply a cluster of corporations of diverse nationality joined together by ties of common ownership and responsive to a common management strategy." ^{2/}

Vernon is primarily concerned with the large multinational enterprises whose operations have been integrated into an extensive decision-making complex. The rise of the large business enterprise has been relatively recent as the legal constraints on its expansion have been removed.

"It was not until the latter part of the nineteenth century that nations began to allow businessmen, as a routine matter of right, to create corporations without limit of life or size of function. And it has only been six or seven decades since most jurisdictions permitted corporations to own other corporations. Because businessmen were not slow to exercise their new prerogatives, it rapidly became commonplace to find clusters of corporations linked together by a common parent, sharing a common pool of resources, and adhering to a common strategy." ^{3/}

Vernon cites two tendencies which have become evident in the development of U. S. international business organizations. One "is the emergence of the strategic view that business should find the best markets employ the best technology, finance through the best channels, irrespective of geography..... The second visible tendency in the structure of U. S. parent firms, closely related to the first, has been the in-gathering of foreign subsidiaries, wherever they may be, under the discipline and framework of a common global strategy and a common global control."^{4/} Vernon's primary concern has been with the large U. S. multinational enterprises. Not only do U. S. enterprises form the majority of the large multinational enterprises, but their international operations have been increasing.

"A score or two of these large companies now have a third or more of their total assets abroad, even a greater number derive a third or more of their income from foreign sales through one channel or another." ^{5/}

Modern developments in transportation and communications have stimulated the growth of multinational enterprises. These advances make it easier for management to:

- "a) weigh remotely situated sites for their merits and drawbacks as producing and distributing points.
- b) monitor the establishment of distant enterprises and
- c) nurse these enterprises through their teething troubles. Today it begins to be feasible to think of great international networks of mines and plants, straddling national boundaries, that are interlocked by supply lines which implement a common strategy of production marketing and control." 6/

Although Vernon's attention has been focused primarily on the large U. S. multinational enterprises, his writing has contributed to a better understanding of the multinational enterprise in a world context.

Notes:

- 1/ R. Vernon, Multinational Enterprise and National Sovereignty, Harvard Business Review 45, March-April 1967, page 156.
- 2/ R. Vernon, Economic Sovereignty at Bay, Foreign Affairs 47, October 1968, page 114.
- 3/ Ibid, page 114.
- 4/ Ibid, page 115.
- 5/ R. Vernon, Multinational Enterprises and National Sovereignty, Harvard Business Review 45, March-April 1967, page 156.
- 6/ Ibid, page 157.

XI. CONCLUSIONS

The term multinational enterprise has found increasing favour which may be justified on the basis of its semantic appeal. Authors such as Behrman and Vernon have discarded the term corporation for enterprise, recognizing that it is more appropriate to call a group of affiliated firms incorporated under different state laws an enterprise. The distinction between the use of "international" and "multinational" to describe an enterprise operating in many nations requires some clarification.

"International enterprise" as employed in this paper refers to any business organization which has direct investments in more than one nation. The term international as such merely indicates that the relations are carried on between or among nations. The word multinational suggests that the enterprise operates in multiple national markets - at least three. The multinational enterprise may therefore be considered a particular type of international enterprise.

When they speak of multinational enterprises, Behrman, Perlmutter and Vernon have in mind the large, integrated enterprises operating in many nations. Perlmutter suggests that by 1985 there may be 300 such firms dominating world business.^{1/} To Behrman the purpose of the multinational enterprise is to "weld its foreign affiliates into an operational entity, integrated with the activities of the parent, to serve the world market".^{2/} Similarly, Vernon stresses the integration of operations and the responsiveness of the entire enterprise to a common management strategy.

Hymer concentrates on the large multinational enterprises which generally have oligopolistic market positions. He points out that when the discretionary power acquired by operating multinationally is coupled with an oligopolistic market structure, the enterprise is able to avoid the discipline of operating within a competitive national economy. Governments will therefore be inhibited in attempts to deal with multinational enterprises through conventional economic policy. The Canadian Task Force was conscious of the fact that a private concentration of power takes on greater significance when foreign control is involved. These considerations suggested to it the need for government supervision and possible regulation of multinational enterprises.

In reviewing these contributions of the authors, the importance of the enterprise's market orientation becomes apparent. The multinational enterprise is confronted by a complex of legal, economic and social constraints within each national market. Its ability to adapt to the different market conditions and its success in avoiding or overcoming the constraints, depends upon its market orientation. The national enterprise relies upon the domestic market for both the factors of production and its sales. In contrast, the multinational enterprise may depend upon a national market for only a few factors of production and be oriented toward the markets of other nations for other factors and sales. The fact that a significant proportion of its operations do not depend upon one national market imparts a degree of freedom to the enterprise. If the enterprise is able to draw upon many national markets for its financing, manufactured inputs and labour and sells in many national markets it will achieve a considerable degree of discretionary power. This discretionary power is based on the ability of the enterprise to direct its flow of funds, undertake its operations and sell its product in a manner which minimizes the constraints placed upon it in the diverse national markets. An enterprise operating in only a few national markets but with a multi-directional flow of factors and products among its affiliates may enjoy a greater degree of freedom in shifting profits and operations and setting intermediate prices than an enterprise with operations in many more nations.

The change in the nature of an enterprise when it operates in multiple national markets, and the consequent change in the nature of its relations to governments are among the most significant features of multinational enterprises to become apparent from the literature reviewed.

Notes:

- 1/ H.V. Perlmutter, Super-Giant Firms in the Future, Wharton Quarterly, Winter 1968, page 1.
- 2/ J.N. Behrman, Can Governments Slay the Dragons of Multinational Enterprise? European Business No. 28, Winter 1971, page 54.

ANNEX A

NOTES ON SOME DEFINITIONS OF THE MULTINATIONAL ENTERPRISE

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